
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised and not taking into account of any Shares which fall to be issued and allotted upon exercise of the options granted under the Pre-IPO Share Option Scheme and options to be granted under the Share Option Scheme), GIHL will hold approximately 44.60% of the issued share capital of our Company. GIHL is wholly-owned by Chairman Lu. Accordingly, GIHL and Chairman Lu will be our Controlling Shareholders after the Global Offering.

Apart from our Group, the Controlling Shareholders and their respective associates do not currently have interests in other businesses.

To ensure that competition will not exist in the future, the Controlling Shareholders have entered into the Deed of Non-competition with us to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly participate in, or hold any right or interest or otherwise be involved in, any business which may be in competition with our businesses.

NON-COMPETE UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders entered into the Deed of Non-competition with our Company, pursuant to which each of the Controlling Shareholders has, among other things, irrevocably and unconditionally undertaken with our Company that at any time during the Relevant Period (as defined below), each of the Controlling Shareholders shall and shall procure that its associates (other than members of our Group) not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its own account or with each other or in conjunction with or on behalf of any person or company, any business in competition with or likely to be in competition with the existing business activities of our Group (“**Restricted Businesses**”).

For the above purpose, the “**Relevant Period**” means the period commencing from the date of the Deed of Non-competition and shall expire on the earlier of (i) the date on which the Controlling Shareholders (together with their respective associates), whether directly or indirectly, jointly or severally, cease to be the Controlling Shareholders of our Company; and (ii) the date on which the Shares cease to be listed on the Stock Exchange.

The aforesaid undertaking does not apply with respect to the Controlling Shareholders’ holding of or being interested in, directly or indirectly, any shares in any company which conducts or is engaged in, directly or indirectly, any business in competition with or likely to be in competition with the existing business carried on by our Group, provided that:

- (a) such shares are listed on a recognised stock exchange;
- (b) the total number of such shares held by any of the Controlling Shareholders and/ or their respective associates does not amount to more than 10% of the issued shares of that class of such company in question; and
- (c) any Restricted Businesses conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company’s consolidated revenue or consolidated assets (individually or collectively with their respective associates) as shown in that company’s latest audited accounts.

New Business Opportunity

Each of the Controlling Shareholders further undertakes, if any new business opportunity relating to the Restricted Business arises (the “**Business Opportunity**”):

- (i) the Controlling Shareholders shall direct to our Company any such Business Opportunity by serving to our Company a written notice;

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- (ii) such written notice shall include all information together with any documents possessed by it or its associates in respect of the Business Opportunity to enable our Company to evaluate the merit of the Business Opportunity and all reasonable assistance as requested by our Company to enable our Group to secure the Business Opportunity.

Upon receipt of the written notice from the Controlling Shareholders, the independent non-executive Directors will consider whether it is in the interest of our Company and the Shareholders as a whole to pursue the Business Opportunity. For the avoidance of doubt, the Controlling Shareholders and their associates (other than our Group) will not be entitled to pursue the Business Opportunity unless the Business Opportunity is declined by our Group or our Company does not proceed with the Business Opportunity within one month from the date of the written notice.

In addition, it is further provided in the Deed of Non-competition that if there is any disagreement between the Controlling Shareholders and our Company as to whether any Business Opportunity shall directly or indirectly compete or lead to competition with the Restricted Businesses, the matter shall be determined by the independent non-executive Directors whose decision shall be final and binding.

Option and Right of First Refusal

The Controlling Shareholders have granted our Company an option, as part of the Deed of Non-competition, to acquire the whole or part of their interests in any Restricted Businesses held directly or indirectly by the Controlling Shareholders and the business arising from the Business Opportunity above not taken up by our Company at any time subject to the Exercise Conditions (as defined below) (the “**Option**”). The price at which the Option will be exercised shall be negotiated and agreed at arm’s length between our Company and the Controlling Shareholders at the time of exercise. If the Controlling Shareholders and our Company fail to agree on the exercise price, an independent internationally recognised firm of valuers will be appointed to determine the exercise price.

The Controlling Shareholders have granted our Company a right of first refusal, as part of the Deed of Non-competition, in the event that any one of the Controlling Shareholders or any of their associates wish to sell the whole or any part of its interest in any Restricted Businesses owned by it or the business arising from the Business Opportunity above not taken up by our Company to any third party (the “**Right of First Refusal**”).

Decisions as to whether to exercise, the Option or the Right of First Refusal shall be subject to the independent non-executive Directors and the independent Shareholders (if required) approving the acquisition. In addition, our Company should appoint an independent financial advisor to review the terms of the acquisition of the interests in any Restricted Businesses and provide a letter of advice to the independent board committee of our Company and the independent Shareholders (if required) (collectively, the “**Exercise Conditions**”).

In the event that our Company decides to exercise the Option or the Right of First Refusal, an announcement will be issued by our Company setting out details of such exercise in accordance with relevant requirements under the Listing Rules. In the event that our Company decides not to exercise the Right of First Refusal, an announcement will also be issued by our Company setting out the reasons for not exercising such right and the Controlling Shareholders may proceed to sell to the third party, provided that the terms and conditions may not be more favourable than those which were offered to our Company.

The exercise of the Option or the Right of First Refusal will constitute connected transaction(s) for our Company under Chapter 14A of the Listing Rules and will be subject to the applicable requirements under the Listing Rules.

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Indemnity

Each of the Controlling Shareholders jointly and severally undertakes to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Company or any other member of our Group arising out of or in connection with any breach of its undertakings and/or obligations under the Deed of Non-competition, including any costs and expenses incurred as a result of such breach provided that the indemnity contained in this clause shall be without prejudice to any other rights and remedies our Company is entitled to in relation to any such breach, including specific performance, and all such other things and remedies are hereby expressly reserved by our Company.

Other undertakings

In order to protect the interests of our Company and the Shareholders, the Controlling Shareholders undertake that in the event that actual or potential conflict of interests arises, they will abstain from voting for such resolution in approving such transaction(s).

In addition, the Controlling Shareholders have undertaken to provide and/or procure any Restricted Business to provide all available information of such Restricted Business necessary for the enforcement of the undertakings in the Deed of Non-competition to our Company and would make an annual Confirmation on compliance with the Deed of Non-competition in the annual report of our Company and corporate governance report pursuant to Appendix 14 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company has adopted the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of the Shareholders:

- (a) the independent non-executive Directors will review, on an annual basis, the Deed of Non-competition to ensure compliance with the non-compete undertakings (including the Option and the Right of First Refusal) by the Controlling Shareholders;
- (b) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (c) our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of our Company;
- (d) the Controlling Shareholders will provide confirmation on compliance pursuant to their undertaking under the Deed of Non-competition in the annual report of our Company;
- (e) decision for the exercise or non-exercise of the Option or the Right of First Refusal shall be determined by our independent non-executive Directors only;
- (f) our independent non-executive Directors are empowered to engage professional advisors at our costs for advices on matters relating to any Business Opportunity or if and when they think necessary in the course of considering connected transactions or reviewing the compliance with the Deed of Non-competition;
- (g) our Company will disclose in an announcement, its interim and annual report on decision, with basis, of our independent non-executive Directors to pursue or decline the Business Opportunity;

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- (h) the Board will ensure that any material conflict or material potential conflict of interests involving the Controlling Shareholders will be reported to the independent non-executive Directors as soon as practicable when such conflict or potential conflict is discovered and a board meeting will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities. The conflicted Directors shall be required to absent from participation and abstain from voting in the board meetings on which resolutions with material potential conflicts of interest are discussed;
- (i) our Company has appointed Shenyin Wanguo as its compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the applicable Listing Rules;
- (j) our Company will observe any transaction that is proposed between our Group and its connected persons, and will be required to comply with Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting, annual review and independent shareholders' approval requirements of those rules;

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently from the Controlling Shareholders and their respective associates after the Global Offering:

Delineation of Business and Non-Competition

Mr. Christophe Jacques Pagezy, one of our non-executive Directors, is an executive vice president of Gemalto. Mr. Pagezy is not a substantial shareholder of Gemalto. Please see section headed "Connected Transactions — Connected Persons" in this prospectus for details of Gemalto. None of our Controlling Shareholders nor our Directors, nor their respective associates has any interest in a business, other than our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business. In addition, our Controlling Shareholders have given a non-compete undertakings in favour of our Company. For details, please refer to the paragraph headed "Non-compete undertakings by Controlling Shareholders" of this section above.

Management Independence

The Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. Our non-executive Directors and independent non-executive Directors will not participate in our daily operations. Each of our Directors is aware of his or her fiduciary duties as a Director which require, among others, that he or she must act for the benefit and in the best interest of our Company and must not allow any conflict between his or her duties as a Director and his or her personal interest. If there is any potential conflict of interest arising out of any transactions to be entered into between our Group and our Directors or their respective associates, the interested Director shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Chairman Lu is a director of our Company as well as a director of GIHL which is a corporate Controlling Shareholder. Since GIHL has no business other than holding its shareholding interests in our Company, our Directors do not consider that there is any issue in relation to management independence arising from the overlapping of directors between our Company and GIHL.

Having considered the above factors as well as the non-compete undertakings made by the Controlling Shareholders in favour of our Company as mentioned in the section headed "Non-compete Undertakings by Controlling Shareholders" above, our Directors are satisfied that they are able to perform their roles in our Company independently and are of the view that they are capable of managing the business of our Company independently after the Listing.

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Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, the board of Directors has full rights to make all decisions on, and to carry out, its own business operations independently.

Our Company has our own management team, the members among which, except for Mr. R.Y. Lu, who is the younger brother of Chairman Lu, are independent of our Controlling Shareholders. Moreover, our Company (through its subsidiaries) holds all relevant licenses necessary to carry on its businesses, and has sufficient capital, equipment and employees to operate its business independently from our Controlling Shareholders.

Our Group has independent access to sources of customers and suppliers. Our Group has also established a set of internal control procedures which facilitate the effective operation of our Group's business. As mentioned in the sub-paragraph headed "Management Independence" above, since Chairman Lu and GIHL have no business other than holding their shareholding interests in our Company, our Controlling Shareholders had not shared any common facilities or resources during the Track Record Period and up to the Latest Practicable Date.

Save as those disclosed in the section headed "Connected Transactions" in this prospectus, our Directors currently do not expect that following the Listing, there will be other connected transactions between our Company and our Controlling Shareholders and their respective associates. Our Company confirms that we will fully comply with Chapter 14A of the Listing Rules if any other connected transaction arises in the future.

Financial independence

Our Group has its own financial management system, internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payments and the ability to operate independently from our Controlling Shareholders from a financial perspective.

All related party balances to or from the Controlling Shareholders have been fully settled before the Listing. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

Having considered the above reasons, our Directors are of the view that our Group is capable of carrying its business independently of our Controlling Shareholders (including any associate thereof) after the Listing.